

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION
OF**

**SURETY MUTUAL LIFE AND CASUALTY
INSURANCE COMPANY
FARGO, NORTH DAKOTA**

**AS OF
DECEMBER 31, 2001**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that
I have compared the annexed copy of the Report of Examination of the

Surety Mutual Life and Casualty Insurance Company

Fargo, North Dakota

as of December 31, 2001, with the original on file in this Department and that the same is a
correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official seal at my
office in the City of Bismarck, this _____ day of
_____, 2003.

Jim Poolman
Commissioner of Insurance

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December 19, 2002
Fargo, North Dakota

Honorable Jim Poolman
Commissioner of Insurance
State of North Dakota
600 East Boulevard
Bismarck, ND 58505-0320

Dear Sir:

Pursuant to your instructions and in accordance with the North Dakota Insurance Code and resolutions adopted by the National Association of Insurance Commissioners, an examination was made of the condition and affairs of the

**Surety Mutual Life and Casualty Insurance Company
Fargo, North Dakota**

Surety Mutual Life and Casualty Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 1996, by representatives of the North Dakota Insurance Department.

SCOPE OF EXAMINATION

This examination was a financial condition examination conducted in accordance with N.D. Cent. Code § 26.1-03-19.3 and observed guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) *Examiners Handbook*. The examination was conducted to determine the Company's financial condition, to assure its compliance with statutes, and to review its corporate affairs and insurance operations. This statutory examination covers the five-year period beginning January 1, 1997, and ending December 31, 2001, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

HISTORY

General

Surety Mutual Life and Casualty Insurance Company (Company) was incorporated under Chapter 19, North Dakota Compiled Laws of 1913 and amendments thereto on October 30, 1935, and commenced business on June 10, 1936, as the "Surety Mutual Health and Accident Insurance Association" writing accident and health business on the assessment plan.

In 1950, the Company was reincorporated under Chapter 26-08, North Dakota Revised Code of 1943 as amended, as a legal reserve mutual life insurance company. As such, it may carry insurance upon the lives of persons, including every kind of insurance pertaining thereto. Also at that time, the name of the Company was changed to "Surety Mutual Life and Casualty Insurance Company."

All recommendations made in the prior report of statutory examination have been adequately addressed by the Company with the following exception:

<u>Recommendation</u>	<u>Action by the Company</u>
It is recommended that the Company establish and implement a procedure for disclosing, on an annual basis, potential conflicts of interest of its officers, directors, and key employees.	The Company did not establish a formal conflict of interest policy during the period under examination.

MANAGEMENT AND CONTROL

Annual Membership Meetings

The Bylaws and Articles of Incorporation provide that the annual meeting of the members shall be held on the second Saturday of January in each year at the hour of 7:30 p.m. for the purpose of electing directors and for the transaction of such other business as may come before the meeting.

Special meetings of the members may be called by a majority of the Board of Directors.

A quorum is those members present in person or represented by written proxies.

Board of Directors

The Bylaws specify that the business and affairs of the Company shall be managed by a Board of Directors consisting of six members. Directors are elected at the annual meeting of the members and serve for a term not exceeding six years or until a successor is duly elected and qualified.

The Bylaws state an annual meeting of the directors shall be held as soon as practical after the annual meeting of the members. Special meetings of the Board of Directors may be held on the written call of the Chairman of the Board of Directors, or on the written call of a majority of the Board of Directors. Directors duly elected and serving at December 31, 2001, together with their addresses and business affiliations are as follows:

<u>Name and Address</u>	<u>Business Affiliations</u>
Kent Hochgraber Fargo, ND	President of the Company Owner of the Fargo office of Dunhill Personnel
Sharon Berg Fargo, ND	Secretary, Treasurer and Vice President of the Company
F.C. Gokey Fargo, ND	Retired
Marjory Hochgraber Fargo, ND	Teacher Fargo Public School System

Keith Hochgraber
Grandin, ND

Parts Manager
Hunter Equipment

Doug Christians
Fargo, ND

Sales Manager
BHD Manufacturers

Officers

Pursuant to the Bylaws, the officers of the Company shall be elected annually at the first meeting of the Board of Directors held after the annual meeting of the members. The officers of the Company shall be a Chairman of the Board, President, one or more Vice Presidents, a Secretary, and a Treasurer. Elected officers serving respective duties as of December 31, 2001, are as follows:

Officer

Frank C. Gokey
Kent Hochgraber
Sharon Berg

Title

Chairman of the Board
President
Secretary, Treasurer and Vice President

Committees

During each of the years under review, the Board of Directors approved appointments to two standing committees to assist the directors in various aspects of Company operations. The standing committees and their respective members at December 31, 2001, were as follows:

Executive Committee

Frank C. Gokey
Kent Hochgraber
Sharon K. Berg

Proxy Committee

Karen Solhjem
Jill Hochgraber
Rick Halvorson

CORPORATE RECORDS

Minutes of Meetings

During the period under examination, the minutes did not reflect the members in attendance at each Board of Directors meeting. **It is recommended that the minutes document the names of those individuals in attendance at each meeting of the Board of Directors.**

Conflict of Interest

The Company does not maintain a formal conflict of interest policy and an established procedure for disclosure of any material interest or affiliations that might tend to influence a board member, officer, or employee in the performance of their duties.

It is again recommended that the Company establish and implement a procedure for disclosing, on an annual basis, potential conflicts of interest of its officers, directors, and key employees.

FIDELITY BOND AND OTHER INSURANCE

The Company's current employee dishonesty coverage is in the amount of \$50,000 which meets the minimum amount of fidelity bond coverage recommended by the NAIC. Other insurance coverage carried by the Company was reviewed and appeared to be adequate.

TERRITORY AND PLAN OF OPERATION

The Company is licensed only in the State of North Dakota.

The Company's principal products at December 31, 2001, consisted of the (1) Dollabac Accident Protection policy which provides benefits for accidental death and dismemberment due to an injury and supplemental coverages providing benefits mainly for loss of income and outpatient medical expenses due to injury, and (2) Dollabac Cancer Protection policy which provides benefits for hospital confinement due to cancer and supplemental coverages for loss of income and outpatient hospital benefits due to cancer.

The Company discontinued the issuance of life insurance products in 1993.

The Company had approximately 34 licensed agents at December 31, 2001.

TREATMENT OF POLICYHOLDERS AND CLAIMANTS

During the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. This review was general in nature with one exception noted.

The Examiners noted that in certain instances, the Company did not use the automatic premium loan endorsement provision to keep the policy in force in the event of nonpayment of premium. Those instances included verbal or written requests for cancellation and notification of death of the insured by telephone. The insured or beneficiary in those instances did not respond to Company requests for return of the policy or for submission of documentation stating the policy was lost. In those instances, the Company removed the policy from the in-force files and did not use the premium refund value or cash value from the policy to pay the premium in default and keep the policy in force.

At the request of the North Dakota Insurance Department, the Company subsequently determined that nine policies, which were terminated by the Company under the above stated circumstances during the period under review, should have been in force at December 31, 2001. The Company calculated the following adjustments to assets and liabilities for those nine policies:

Policy Loans	\$3,862
Deferred Premium	136
Aggregate Life Reserve	1,614
Aggregate A&H Reserve	8,958

The Examiners included the foregoing amounts in the December 31, 2001, financial statements of the Company.

The Company also prepared an internal document containing a list of corrective procedures to be performed by the Company to address all policies incompletely terminated by the Company during the period under examination. **It is recommended that the Company implement the corrective procedures contained in the Company's letter dated November 8, 2002, for policies incompletely terminated during the period under examination.**

It is recommended that the Company implement prospective procedures to activate the automatic premium loan endorsement in the event of nonpayment of premium in order to keep coverage in force while the policy has sufficient cash value or premium refund value.

REINSURANCE

The Company's reinsurance treaties in force at December 31, 2001, are summarized below.

1. Type: Aggregate Excess, and Pro Rata
 Reinsurer: Employers Reinsurance Corporation
 Scope: Personal accident and sickness policies
 Retention: Based upon benefit plan
 Coverage: Based upon benefit plan
 Effective Date: January 1, 1981
 Termination: Either party by giving 90 days written notice of termination

2. Type: Coinsurance
 Reinsurer: Employers Reassurance Corporation
 Scope: Group Life
 Retention: \$2,500 each on children, spouse, and applicant age 18-64
 Coverage: After \$2,500 each on children, spouse, and applicant age 18-94 up to a maximum of \$35,000 each life
 Effective Date: March 1, 1983
 Termination: Either party by giving 31 days written notice of termination

RELATED PARTY TRANSACTIONS

Management/Service Contracts

The Company entered into a consulting agreement with its former President, Frank C. Gokey, executed effective January 8, 2000, whereby Mr. Gokey agrees to provide services covering the following items: marketing and pricing strategy, personnel problems, expansion opportunities, and investment opportunities. In exchange for those services, the Company agrees to provide to Mr. Gokey use of office space and other office facilities in its home office building. The agreement begins upon the retirement of Mr. Gokey and shall terminate on March 1, 2020, or upon his death. Mr. Gokey retired as President of the Company on January 13, 2001, but continued in the position of Chairman of the Board through December 31, 2001.

In 2001, the Company received \$7,500 from Frank C. Gokey. The Company recorded \$6,000 as earned rental income in 2001 and \$1,500 as unearned rental income at December 31, 2001.

Rental Agreements

During the period under examination, the Company entered into a lease agreement with Dunhill Personnel of Fargo, Inc. (Dunhill), an entity owned by Kent Hochgraber, the Company's President. Under the agreement, Dunhill agrees to rent 798.25 square feet of office space in the Company's home office building at the rate of \$10 per square foot per year. The lease was effective November 7, 2000, and ends on October 31, 2003, unless terminated earlier by the Company.

The Company received rental income of \$7,982 from the Dunhill in 2001.

ACCOUNTS AND RECORDS

The Examiner obtained a trial balance for 2001 and traced it to the annual statement with no exceptions noted. The Company's ledgers and accounting records are maintained by both manual and electronic methods.

The following is a list of differences noted under this section:

Supporting Documentation

The Company was unable to provide supporting documentation for the following annual statement amounts:

- Documentation supporting the asset reported as "Guaranteed Receivable"
- A detailed inventory of the liability "Policy and Contract Claims: A&H"
- Documentation for the liability "General Expenses Due or Accrued"

It is recommended that the Company establish procedures to ensure that documentation for all annual statement balances is retained and is readily available for future statutory examinations.

Annual Statement Differences

Bonds:

1. The Company owned United States public utility bonds not Canadian public utility bonds as shown on the Schedule D–Summary by Country schedule (page 42) of the Company's 2001 Annual Statement.
2. The Company did not complete column 15 "Gross Amount of Interest Received by Year" for Schedule D, Part 1 of the 2001 Annual Statement.
3. The Company did not complete column 21 "Effective Rate of Interest" for Schedule D, Part 1 of the 2001 Annual Statement.
4. The Company did not always report the correct CUSIP number in Schedule D.
5. The Company used the wrong disposal date for two bonds reported in Schedule D, Part 4 of the 2001 Annual Statement.
6. Interest paid on acquisition was not always recorded for the correct security in Schedule D, Part 3.
7. The Company did not designate provisionally exempt securities with the "PE" symbol in Column 19 of Schedule D, Part 1.

Common Stocks: At December 31, 2001, the Company owned 15,000 shares of Aberdeen Asia Pacific not 1,000 shares as reported in Schedule D, Part 2.

Real Estate: Rental income was understated in 2001 because the Company did include rent for its occupancy in its home office building in Exhibit 2, Line 4.

Exhibit of Life Insurance: At December 31, 2001, the Company had 81 life policies in force, not 78 as reported on page 29 of the 2001 Annual Statement.

Exhibit 11: The Company categorized all unpaid A&H claims on line 2.2 as "Direct-In Course of Settlement". Review by the Examiners determined that the Company should have allocated part of the liability to the lines for IBNR and reinsurance ceded in Exhibit 11 and to line 10 of Exhibit 9.

Notes to the Financial Statement: The Notes to the Financial Statement to the Company's 2001 Annual Statement appeared to have been prepared using 2000 Annual Statement Instructions rather than 2001 Annual Statement Instructions which require significantly more detailed disclosures than previous annual statements.

Gross Paid in and Contributed Surplus: The Company's former President, Frank C. Gokey, made surplus contributions to the Company at various times. Those contributions included the following items and amounts:

May 19, 1994	Five shares of Northern Bottling common stock	\$56,743
April 25, 1997	Five shares of Northern Bottling common stock	64,000

The Company did not report any amount on line 33 of page 3 for Gross Paid in and Contributed Surplus in its 2001 Annual Statement.

It is recommended that the Company prepare its statutory annual statement in strict conformity with the *Annual Statement Instructions*, the *SVO's Purposes and Procedures Manual*, and the *Accounting Practices and Procedures Manual* in order to assure compliance with N.D. Cent. Code § 26.1-03-07 and N.D. Admin. Code § 45-03-15-02 which requires an insurer to file a report of its financial condition on a form and in accordance with instructions prescribed by the Commissioner.

RISK BASED CAPITAL

The Examiner noted the following differences in the Company's December 31, 2001 RBC report:

- The Company understated the asset concentration component.
- The Company understated the real estate component.
- The Company overstated group life insurance in force.

The above items overstated the Company Action Level component of RBC by approximately \$12,000 at December 31, 2001, according to a revised RBC report prepared by the Company. Adjusted surplus after exam changes was approximately 300% of revised Authorized Control Level at December 31, 2001.

FINANCIAL STATEMENTS

The following pages present a Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2001. This statement is followed by supporting statements and reconciliation presented in the following order:

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2001

Summary of Operations, Year 2001

Reconciliation of Capital and Surplus, January 1, 1997, through December 31, 2001

Surety Mutual Life and Casualty Insurance Company
Statement of Assets, Liabilities, Surplus, and Other Funds
as of December 31, 2001

	Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$1,503,332		\$1,503,332
Stocks:			
Preferred	106,000		106,000
Common	60,600	\$3,000	57,600
Real Estate:			
Properties Occupied by the Company	173,389		173,399
Policy Loans	63,102		63,102
Cash	97,608		97,608
Guarantee Fund	90	90	
Life Insurance Premiums and Annuity Considerations Deferred and Uncollected	3,862		3,862
Accident and Health Premiums Due and Unpaid	1,790		1,790
Investment Income Due and Accrued	38,982	1,908	37,074
Totals	<u>\$2,048,755</u>	<u>\$4,998</u>	<u>\$2,043,757</u>

Surety Mutual Life and Casualty Insurance Company
Liabilities , Surplus, and Other Funds
as of December 31, 2001

Aggregate Reserve for Life Policies and Contracts		\$ 105,635
Aggregate Reserve for Accident and Health Policies		1,678,142
Policy and Contract Claims:		
Accident and Health		40,000
Premiums and Annuity Considerations Received in Advance		428
Interest Maintenance Reserve		21,612
General Expenses Due or Accrued		4,318
Taxes, Licenses, and Fees Due or Accrued		6,527
Unearned Investment Income		3,758
Amounts Withheld or Retained by Company as Agent or Trustee	766	
Asset Valuation Reserve		<u>21,546</u>
Total Liabilities		\$1,882,732
Unassigned Funds	<u>\$161,025</u>	
Total Capital and Surplus		<u>161,025</u>
Total Liabilities, Capital, and Surplus		<u>\$2,043,757</u>

Surety Mutual Life and Casualty Insurance Company
Summary of Operations
for the Year Ended December 31, 2001

Premiums and Annuity Considerations		\$444,295
Net Investment Income		137,771
Amortization of Interest Maintenance Reserve		<u>1,339</u>
Total		\$583,405
Deduct:		
Death Benefits		12,000
Disability Benefits and Benefits Under Accident and Health Policies		173,573
Surrender Benefits and Other Fund Withdrawals	4,669	
Interest on Policy or Contract Funds		7
Increase in Aggregate Reserve for Life and Accident and Health Policies and Contracts		<u>127,617</u>
Total		\$317,866
Commissions on Premiums and Annuity Considerations (Direct)		61,693
General Insurance Expenses		217,873
Insurance Taxes, Licenses, and Fees		23,287
Increase in Loading on and Cost of Collection in Excess of Loading on Deferred and Uncollected Premium		<u>(164)</u>
Total		\$620,555
Net Gain From Operations Before Dividends to Policyholders and Federal Income Taxes		(37,150)
Dividends to Policyholders		<u>0</u>
Net Gain From Operations After Dividends to Policyholders and Before Federal Income Taxes		\$(37,150)
Federal Income Taxes Incurred		<u>0</u>
Net Gain From Operations After Dividends to Policyholders and Federal Income Taxes and Before Realized Capital Gains or Losses		\$(37,150)
Net Realized Capital Gains		<u>0</u>
Net Loss		<u><u>\$ (37,150)</u></u>

Surety Mutual Life and Casualty Insurance Company
Reconciliation of Capital and Surplus Account
January 1, 1997, through December 31,2001

	2001	2000	1999	1998	1997
Capital and Surplus, December 31, Previous Year	\$214,489	\$289,350	\$191,761	\$168,830	\$136,172
Net Income	(37,150)	(71,575)	(106,047)	(6,766)	10, 940
Change in Net Unrealized Capital Gains or (Losses)	(3,000)				(375)
Change in Non-Admitted Assets and Related Items	(90)				595
Change in Reserve on Account of Change in Valuation Basis			202,041		
Change in Asset Valuation Reserve	(6,650)	(3,286)	1,595	29,698	(15,626)
Paid in Surplus					64,000
Prior Period Adjustments					(26,877)
Exam Adjustment - Policies Incompletely Terminated	(6,574)				
Net Change in Capital and Surplus for the Year	(53,464)	(74,861)	97,589	22,932	32,657
Capital and Surplus, December 31, Current Year	\$161,025	\$214,489	\$289,350	\$191,761	\$168,829

Surety Mutual Life and Casualty Insurance Company
Analysis of Examination Changes
for the Year Ended December 31, 2001

<u>Change</u> <u>Description</u>	<u>Annual</u> <u>Statement</u>	<u>Per</u> <u>Examination</u>	<u>Surplus</u> <u>Increase</u>	<u>Decrease</u>
<u>Assets</u>				
Common Stocks	\$ 60,600	\$ 57,600		\$ 3,000
Policy Loans	59,240	63,102	\$3,862	
Guaranty Fund	90	0		90
Deferred & Uncollected Premiums	3,726	3,862	136	
Investment Income Due And Accrued	38,982	37,074		1,908
<u>Liabilities</u>				
Agg. Reserve for Life Policies	104,021	105,635		1,614
Agg. Reserve for A&H Policies	1,662,397	1,678,142		15,745
Policy and Contract Claims: A&H	35,000	40,000		5,000
Taxes, Licenses, and Fees	5,545	6,527		982
Asset Valuation Reserve	<u>20,491</u>	<u>21,546</u>		<u>1,055</u>
			<u>\$3,998</u>	<u>\$29,394</u>
Surplus Per Annual Statement		\$ 186,421		
Surplus Per Examination		<u>161,025</u>		
Decrease Per Examination		<u>\$ 25,396</u>		

COMMENTS TO THE FINANCIAL STATEMENTS

Financial statement balances at December 31, 2001, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

Bonds

The Company uses the straight line method to amortize discount and premium on bonds. **It is recommended that the Company use the scientific method to amortize bond discount and bond premium as required by SSAP #26, paragraph 6, for all issues purchased subsequent to December 31, 2000.**

The Company used the settlement date to record the purchase and sale of securities in Schedule D. **It is recommended that the Company use the trade date rather than the settlement date to record the purchase and sale of securities as required by SSAP #26, paragraph 4.**

Common Stocks

The Examiners valued 1,000 shares of Aberdeen Asia Pacific common shares at \$57,600 rather than \$60,600 as reported by the Company.

Policy Loans

The Company computes unearned interest on policy loans using the semi-annual pro-rata method. **It is recommended that the Company use the semi-monthly pro rata method or daily pro-rata method to compute unearned interest on policy loans.**

The \$3,862 examination adjustment to policy loans represents the December 31, 2001, policy loan balance of nine policies incompletely terminated by the Company during the period under examination.

Guaranty Fund

This asset has been decreased by \$90 to \$0. The Company was unable to provide adequate documentation supporting the reported asset.

Life Insurance Premiums and Annuity Considerations Deferred and Uncollected

The \$136 examination adjustment to this caption consists of net deferred premiums on one life policy incompletely terminated by the Company during the period under examination.

Investment Income Due and Accrued

The \$1,908 examination decrease to this caption consists mainly of an adjustment to the reported accrued interest on a Fortune Brand bond.

Aggregate Reserve for Life Policies and Contracts

The \$1,614 examination adjustment to this caption consists of the December 31, 2001, reserve for one life policy incompletely terminated by the Company during the period under examination.

Aggregate Reserve for A&H Policies

The reserve was determined to be \$1,678,142 or \$15,745 more than the amount reported by the Company. The increase consists of the following three items:

1. The December 31, 2001 "Reserve for Future Contingent Benefits" was inadvertently not computed for two in-force A&H policies. The reserve for those two policies was \$5,387.
2. The Company computes the unearned premium reserve for accident and health policies using one-half the mode premium in force. The unearned premium reserve used by this examination was determined using effective dates and premium modes and was \$1,400 more than the amount reported by the Company.
It is recommended that the Company compute the unearned premium reserve on A&H policies using the daily pro rata or monthly pro rata method as required by SSAP #54.
3. The examination adjustment for eight A&H policies incompletely terminated by the Company during the period under examination was \$8,958.

The Company included advance premiums in the "Aggregate Reserve for A&H Policies" rather than on line 8 of page 3. **It is recommended that the Company record advance premiums on line 8, page 3, as required by SSAP #54, paragraph 6.**

Policy and Contract Claims: A&H

An examination of the claim files and claim payments made subsequent to December 31, 2001, for claims incurred in prior periods determined that the Company understated this liability by \$5,000.

Taxes, Licenses, and Fees

This liability has been increased by \$982 from \$5,545 to \$6,527. The increase is related to additional premium taxes owed to the State of North Dakota for the year 2001.

Asset Valuation Reserve

This liability has been increased by \$1,055 from \$20,491 to \$21,546. The asset valuation reserve as recomputed by this examination takes into consideration the \$3,000 examination reduction to the admitted value of common stocks.

CONCLUSION

The financial condition of the Company, as of December 31, 2001, as determined by this examination is summarized as follows:

Admitted Assets		<u>\$2,043,757</u>
Total Liabilities	\$ 1,882,732	
Surplus as Regards Policyholders	<u>161,025</u>	
Liabilities, Surplus and Other Funds		<u>\$2,043,757</u>

Since the last examination conducted as of December 31, 1996, the Company's admitted assets have increased \$504,792, its total liabilities have increased \$479,940, and its surplus as regards policyholders has increased \$24,852.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Rhoda Sautner, CPA and Mike Fix, ASA, MAAA of the North Dakota Insurance Department participated in this examination.

David Weiss, CFE,
Examiner-in-Charge
N.D. Insurance Department

RECOMMENDATIONS

- Page 3 It is recommended that the minutes document the names of those individuals in attendance at each meeting of the Board of Directors.
- Page 4 It is again recommended that the Company establish and implement a procedure for disclosing, on an annual basis, potential conflicts of interest of its officers, directors, and key employees.
- Page 5 It is recommended that the Company implement the corrective procedures contained in the Company's letter dated November 8, 2002, for policies incompletely terminated during the period under examination.
- Page 5 It is recommended that the Company implement prospective procedures to activate the automatic premium loan endorsement in the event of nonpayment of premium in order to keep coverage in force while the policy has sufficient cash value or premium refund value.
- Page 6 It is recommended that the Company establish procedures to ensure that documentation for all annual statement balances is retained and is readily available for future statutory examinations.
- Page 8 It is recommended that the Company prepare its statutory annual statement in strict conformity with the *Annual Statement Instructions*, the *SVO's Purposes and Procedures Manual* and the *Accounting Practices and Procedures Manual* in order to assure compliance with N.D. Cent. Code § 26.1-03-07 and N.D. Admin. Code § 45-03-15-02 which requires an insurer to file a report of its financial condition on a form and in accordance with instructions prescribed by the Commissioner.
- Page 14 It is recommended that the Company use the scientific method to amortize bond discount and bond premium as required by SSAP #26, paragraph 6, for all issues purchased subsequent to December 31, 2000.
- Page 14 It is recommended that the Company use the trade date rather than the settlement date to record the purchase and sale of securities as required by SSAP #26, paragraph 4.
- Page 14 It is recommended that the Company use the semi-monthly pro rata method or daily pro-rata method to compute unearned interest on policy loans.
- Page 15 It is recommended that the Company compute the unearned premium reserve on A&H policies using the daily pro rata or monthly pro rata method as required by SSAP # 54.
- Page 15 It is recommended that the Company record advance premiums on line 8, page 3, as required by SSAP #54, paragraph 6.